

Memorandum

To: Panel Members Date: March 27, 2003

From: Diana Torres, Manager
Peter DeMauro, General Counsel Analyst: K. Campion

Subject: One-Step Agreement for **Strategic Hotel Capital, The Ritz-Carlton, Laguna Niguel**
(www.ritzcarlton.com)

CONTRACTOR:

- Training Project Profile: Retraining: Companies with Out-of-State Competition
- Legislative Priorities: Stimulating Exports/Imports
- Type of Industry: Services Hotel/Hospitality
- Repeat Contractor: Yes
- Contractor's Full Time Employees:
 - Company Wide: 25,000
 - In California: 2,800
- Fringe Benefits: Yes
- Union Representation: No
- Name and Local Number of Union representing workers to be Trained: N/A

CONTRACT:

- Program Costs: \$545,940
- Substantial Contribution: \$0
- Total ETP Funding: \$545,940
- In-Kind Contribution: \$805,000
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Orange
- Duration of Agreement: 24 Months

SUBCONTRACTORS:

Alicia Ashley & Associates, in Irvine, California - \$5,000 for Project Administration.

THIRD PARTY SERVICES:

The applicant states that Alicia Ashley & Associates assisted with the design of the Training Plan and completion of the application documents for a flat rate of \$5,000.

PRIOR PROJECTS:

The following are completed project statistics for ETP Agreements with this Contractor within the last five years:

Agreement No.	Location (City)	Term	Agreement Amount	Amount Earned	% Earned
ET8-0537	Marina del Rey	8/18/97 – 8/17/99	\$88,280	\$51,770	58.6%

The representatives of the Ritz-Carlton Marina del Rey hotel reported the following reasons for the marginal success of this project: 1) they found that the structured-on-site training (SOST) paperwork to be voluminous and burdensome and, 2) they had a limited administrative staff and could not handle the load of their daily responsibilities and the requirements of ETP at the same time. As a result, the hotel earned less than what was originally planned.

The Ritz-Carlton Laguna Niguel representatives project that they will have greater success in this proposed Agreement because 1) there is no SOST component, 2) they will utilize ETP's Class/Lab On-Line Tracking System to help them in the administration of this project, and 3) they are working with a consultant to assist in administration duties.

NARRATIVE:

Strategic Hotel Capital, The Ritz-Carlton, Laguna Niguel, (The Ritz-Carlton) is a 393-room luxury resort and spa located on the beach in Dana Point, California. The hotel has over 22,000 square feet of indoor conference and banquet space. The Ritz-Carlton opened its doors in 1984, has 780 full-time employees, and is rated Five Diamonds by the Automobile Association of America (AAA).

The Ritz-Carlton, Laguna Niguel is eligible for funding under Title 22, California Code of Regulations, Section 4416(d)(3)(A)(E), Out-of-State Competition, as a recognized destination resort hotel that competes nationally and internationally for customers. Of the hotel's revenues, substantially more than 25 percent were derived from out-of-state resort and convention business. In addition, the Ritz-Carlton routinely conducts out-of-state sales/marketing efforts, routinely advertises in media in which its out-of-state competitors advertise, and regularly participates in out-of-state sales missions or trade shows.

Since 9/11, tourism has diminished and the hotel has suffered from fewer guests and a decrease in revenues. The Ritz-Carlton must work harder to attract out-of-town conventions to its property and faces increased competition from out-of-state resorts such as The Phoenician in Arizona, The Bellagio and Four

NARRATIVE (continued):

Seasons in Las Vegas, The Breakers in Florida, and The Four Seasons in Hawaii, which compete for the same out-of-state customers. Additionally, it faces increased competition from local, luxury hotels, which are in competition for the same out-of-state customers.

Additionally, after 17 years as a AAA Five-Diamond and Mobile Five-Star hotel, The Ritz-Carlton, Laguna Niguel lost a star rating in 1998. According to the company, it is crucial to the success of the company to get back the Mobile Five-Star rating. Hotel officials state that they cannot do this, however, without increasing the skill levels of all employees. The company must increase customer satisfaction, increase efficiency and productivity of its workers, streamline processes, and develop new and improved standards of excellence. Maximizing revenues and improving operating effectiveness will help meet these goals. To that end, The Ritz-Carlton, Laguna Niguel requests ETP's assistance in training 450 accounting staff, administrative staff, banquet servers, engineers, front office staff, guest services staff, housekeepers, kitchen staff and sales staff in Business Skills; and 76 supervisor/managers in Business Skills and Management Skills.

Business Skills

Training in Business Skills is proposed for all occupations in the Training Plan. All employees, with the exception of managers, will receive Communication Skills, Conflict Resolution, Advanced Standards of Excellence, and Advanced Telephone Usage training. These courses are designed to take the company's service standards to a new, higher level of excellence, ensuring a higher level of customer satisfaction.

Training for housekeeping staff is designed to improve service standards and streamline the housekeeping processes. Each housekeeping supervisor will receive special training on utilizing a Palm Pilot that runs service reports. Subsequently, the supervisors will train staff on how to utilize the Palm Pilots. This training is designed to increase productivity and efficiency of the housekeeping staff and will provide trainees with formal procedures never before implemented.

Kitchen staff employees will receive Business Skills training in Advanced Culinary Knowledge. Prior to this program, kitchen staff have not received formal training in how to apply the principles of quality, creativity and taste in food preparation. The culinary knowledge training will be conducted in a formal lab environment, in which trainees will learn how to understand and apply the advanced techniques of food production and service.

Some select trainees will receive training in interviewing skills for non-managers. The Ritz-Carlton reports that it places an extremely high standard on hiring and empowers many of its employees to take part in peer interviews which are an essential part of the hiring process. Given the selective nature of this company, potential applicants must go through several interviews prior to being hired. Non-managers must learn the skills and techniques necessary to select the best qualified candidates for hire. This training is separate and different from the interviewing training that the hotel currently provides to its managers.

Supervisors/Managers and certain employees will receive Coaching Skills, Time Management and Organization Skills, Advanced Presentation Skills, and Quality Concepts and Processes. Another group of front-line workers will receive Leadership Skills training that is designed to provide those moving into leadership with the skills necessary to handle increased job responsibilities.

NARRATIVE (continued):

Management Skills

Management Skills training is proposed only for supervisors/managers. This training will be delivered via Computer-Based Training (CBT) and focuses on Advanced Leadership Skills. A large part of the successful transition to increasing the service standards for employees depends on having a strong management team that can lead its employees through change. The Management Skills training will develop and improve the skills of managers in the following areas: Solving Business Problems, Essentials of Finance, Negotiating Skills, and Project Management. The company's expectation is that training will provide a work environment that encourages better employee satisfaction and retention.

Supplemental Nature of Training

Company representatives have certified in writing that the proposed training in Business Skills and Management Skills is new training and supplemental to training that the company provides in the normal course of its business. The Ritz-Carlton's typical training consists of New Employee Orientation, Basic Telephone Skills training, Controlling Alcohol Risks Effectively (CARE), Basic Supervisory training, Blood Borne Pathogen training, Cardiopulmonary Resuscitation (CPR), English as a Second Language training, Food Safety, Train the Trainer, Diversity Training, Avoiding Sexual Harassment, and Quality Selection Process Interview Techniques.

The Ritz-Carlton officials state that ETP funds will allow the company to provide a formal, professional training program, never before offered. Company representatives further state that in the absence of ETP funding, this training project would either not take place due to budgetary constraints, or it would be conducted in a much more abbreviated manner. The Ritz-Carlton estimates that in the two years following ETP, the company will invest approximately \$600,000 in training.

In-Kind Contribution

The Ritz-Carlton estimates an in-kind contribution to this training project in the amount of \$805,000 which includes \$480,000 in wages paid to ETP trainees during training and \$325,000 for the costs of training non-ETP eligible trainees in ETP training.

COMMENTS:

Managers

With the exception of 76 supervisor/managers (14% of the trainee population), all retrainees meet the Panel definition of frontline worker under Title 22, California Code of Regulations, Section 4400(ee).

Service Charges

At the October 24, 2002 Panel meeting, the Panel approved the use of service charges (mandatory banquet tips) that could be used to supplement a trainee's base wage for the purpose of meeting ETP's minimum wage requirements. This proposal includes mandatory service charges for 67 banquet server

COMMENTS (continued):

trainees. These service charges are: 1) compulsory charges paid (in addition to regular wages) by a customer directly to The Ritz-Carlton, Laguna Niguel; 2) subject to sales tax; 3) distributed by the hotel to the employee; and, 4) considered wages for federal employment tax purposes and for income tax withholding. The Contractor reports that the banquet service charges paid to the trainees range from \$4.99 per hour to \$24.00 per hour. These wages, in addition the employees' regular wages, equate to annual salaries for these individuals of \$24,419 to \$63,960 per year.

PROPOSED ACTION:

Staff recommends that the Panel approve this One-Step Agreement, if funds are available and the project meets Panel priorities. This recommendation is based on Strategic Hotel Capital, The Ritz-Carlton, Laguna Niguel's stated need to provide its workers with skills to remain competitive, to ensure a continuing relationship with its customers, and to remain viable in the California economy.

TRAINING PLAN:

Grp/Trainee Type	Types of Training	No. Retain	No. Class/Lab Videocnf. Hrs	No. CBT Hrs	No. SOST Hrs.	Cost per Trainee	Hourly Wage after 90 days
JOBS 1 & 3	Business Skills	450	50 – 120	0	N/A	\$650 – \$1,560	*\$11.74 – \$23.15
JOB 2	Business Skills	76	60	20	N/A	\$940	\$16.83 – \$36.54
Retrainees	Management Skills						
						<u>Range of Hourly Wages</u>	
						*11.74 – \$36.54	
						<u>Prevalent Hourly Wage</u>	
						\$12.20	
						<u>Average Cost per Trainee</u>	
						\$1,038	
<u>Health Benefit used to meet ETP minimum wage:</u>					<u>Turnover Rate</u>	<u>% of Mgrs & Supervisors to be trained:</u>	
*Health Benefits of at least \$2.65 per hour may be used to meet the ETP minimum hourly rate of \$11.74 per hour for Orange County.					20%	14%	
**Mandatory Service Charges of at least \$4.99 per hour may be used to meet the ETP minimum hourly rate for Orange County.							



THE RITZ-CARLTON
LAGUNA NIGUEL

Curriculum

Class/Lab Hours

50 – Job 1
60 – Job 2
120 – Job 3

BUSINESS SKILLS

- Powerful Communication Skills
- Coaching Skills
- Time Management and Organizational Skills
- Interviewing Skills for Non-Managers
- Advanced Presentation Skills
- Housekeeping Certification Procedures Training
- Advanced Culinary Knowledge Training
- Advanced Standards of Excellence
- Conflict Resolution Skills for Internal and External Customers
- Advanced Skills for Telephone Usage
- Quality Concepts and Processes
- Leadership Skills for new leaders

CBT Hours

20 – Job 2

MANAGEMENT SKILLS

- Advanced Leadership Initiative training for current Managers
 - Solving Business Problems
 - Finance Essentials
 - Negotiating Techniques
 - Project Management Skills